AGRICULTURAL OUTLOOK DIGEST

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OUTLOOK 73

1973

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Economic Research Service U.S. Department of Agriculture

PLANTINGS UP IN WAKE OF '72 RECORDS

Farm production, farm prices, farm income, and farm exports all set records in 1972:

Item	Unit	1971	Pre-lim. 1972
U.S. farm output . .	1967 =100	111	112
Average prices received by farmers	"	112	126
Realized net farm income	$bil.	16.1	19.2
U.S. farm exports (calendar year) . .	"	7.7	9.4

Vigorous world and domestic demand will lend continued strength to farm price, income, and export prospects in months ahead. Yet, a host of uncertainties are also in sight for 1973:

How long will the smart pace of exports continue? Will the tight freight car situation restrict the flow of farm inputs and commodity marketings? Will the boom in farm prices lose steam? How will changing farm program details affect farm income, and what will take the place of the Agriculture Act of 1970 which expires this year? What will happen to the cost of farming and cost of rural living, both hot on the trail of rising farm prices last year?

Intent

First indication of how U.S. farmers might add up these facts and worries, and translate them into business decisions, came with the USDA January Planting Intentions Report, just released. The report shows farmers in 35 major States are contemplating growing more feed grains, wheat, and soybeans, but trimming cotton output. Based on their intentions, on a crop-by-crop basis, the following acreages for the entire United States are likely.

	Prospec-tive acreage	Change from 1972 plantings
	Mil. acres	*Percent*
corn	71.6	+9
spring wheat	14.6	+15
oats	20.3	+5
barley	10.5	+2
all sorghums	19.0	+17
soybeans	50.0	+6
cotton, all	12.9	-7
flaxseed	1.15	-3

Government Response

On January 31, after reviewing preliminary planting intentions and heavy feed demand, the Agriculture Department reduced set aside requirements for the 1973 feed grain program and allowed haying of conserving crops on set aside feed grain or wheat land.

The required set aside for full compliance was lowered from 30 to 25 percent of a producer's feed grain base. For participants electing not to comply fully, who do not exceed their 1972 feed grain average required set aside drops from 15 percent to zero.

The latest change, it's hoped, will induce farmers to set aside 16½ million acres under the feed grain program, instead of the 25 million acre set aside envisioned initially.

This could produce corn and soybean crops substantially larger than the 1972 outturns of 5½ billion bushels of corn and 1¼ billion bushels of soybeans, to meet stepped-up market needs.

Income Slippage

Looking over 1973's horizon, it's possible to discern some broad outlines for the farm income picture: Overall, prices should remain firm. With GNP and consumer incomes continuing up in 1973, livestock and meat prices are likely to stay strong, although larger supplies and easing prices are a possibility this fall.

Value of farm marketings will top the 1972 record, boosted by the high prices plus continued large volume. So, despite some cutback in Government program payments, realized gross farm income will likely top 1972's $66.4 billion.

Farm expenses are likely to rise more than the $3.2 billion registered last year, leaving 1973 net farm income below last year's record $19.2 billion, but above any other prior year.

MORE WHEAT-MARKET STRENGTH

The pressure of world wheat import needs on limited available supplies will continue into the 1973/74 marketing season beginning next July.

Developments since the small Russian crop last fall have boosted import requirements. Self-suffiency is an abandoned hope in India this year, where large wheat imports are being arranged, and Brazil's bad harvest has boosted its projected import needs.

(Continued on p. 2.)

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Wheat Strength, from p. 1.

Meanwhile, the pace of world exports is ensuring a smaller U.S. wheat carryover into the summer. Massive Russian purchases, followed by increased importing by the People's Republic of China, have paved the way for a prospective world wheat trade of 69 million metric tons this season, well over the previous high of 1965/66.

U.S. exports during 1972/73 may total 1.15 billion bushels. Coupled with domestic needs, this would leave a 440-million bushel carryover next summer, small by any recent standards. Much of this will be in "the free market," rather than in CCC inventories.

The CCC will not extend loans on 375 million bushels of wheat under loan from 1972 and earlier crops.

The smaller carryover could be offset by a U.S. crop well in excess of any past bumper harvest. Spring wheat is the volatile element: Crop estimators have already tagged the winter wheat crop at a likely 1.28 billion bushels, reflecting excellent yields and a little more land. This assumes normal weather between now and harvest. Also, the preliminary planting intentions report found farmers eyeing 14½ million acres of spring wheat, 15 percent more than last year. These reports came before the Government swept away set-aside requirements in January, which could spell less winter wheat abandonment and an even larger spurt than anticipated in spring wheat plantings. The March intentions survey will tell a timelier tale.

Price Hopes

Wheat prices have soared four-fifths above their harvest lows. The $2.38 per bushel received by farmers in January was the highest for the month since 1947, and the season-average price is likely to be around a fourth over 1972/72's amount.

During coming weeks, markets will feel the effects of sale of CCC stocks, particularly for hard red winter and hard red spring wheats. But overall price prospects for 1973 remain strong, riding on the swell of world demand.

KEYNOTERS: Marina Van Neumann Whitman, Council of Economic Advisors, right, and Earl Butz, Secretary of Agriculture, are speaking at the opening session of the 51st annual agricultural outlook conference at USDA on February 20, 1973. Mrs. Whitman will provide an overview of the 1973 economic outlook.

The 3-day conference will feature discussions of the future structure of agricultural production and marketing as well as the traditional commodity sessions and a segment devoted to current issues in family living.

RECORD CROPS, YIELDS; FINAL SURVEY DUE

Weather stimulated record yields in 1972, nudging total crop output to a new high, but it also left some field crops stranded as the new year began.

A mid-January USDA report indicated that crop harvesting lagged badly in late 1972, complicated by a fuel shortage which thwarted drying of soggy crops. During December 1972, the Statistical Reporting Service found that about 10 percent of the Nation's corn, sorghum, and cotton and 20 percent of the soybeans remained unharvested. By late January, additional field reports indicated that harvesting was over for all but 5 percent of the corn and soybeans. Meanwhile, fuel shortages worsened during January.

SRS is slated to conduct a special post-harvest survey soon to determine the final, belated outcome of soybean, corn, and sorghum crops.

Despite the foulups, and allowing for output from acres just now being harvested, total U.S. crop production has been estimated at a new high mark for 1972. Although both planted and harvested acreage were down 4 percent, excellent yields pushed 1972 output a point ahead of the year before, to 113 percent of 1967's level.

VEGETABLE SUPPLIES LAG DEMAND

Total vegetable output in 1972 was the same as the year before and only 1 percent larger than in 1967, and vegetable prices have risen considerably.

Smaller supplies and brisk sales are promoting high vegetable prices. Two recent months of farm price indexes—December 1972 and January 1973—showed fresh market vegetables prices up 55 percent from the 1967 average, commercial vegetable prices up 30 percent, and potatoes, sweet-potatoes, and dry beans up 38 percent.

The domestic winter vegetable harvest could be 4 percent smaller than a year ago based on average yields, largely because of reduced tomato and sweet corn acreage.

For processed items, the pace of sales dominates the picture. The combined canned and frozen vegetable supply for 1972/73 is down a little from the prior season's moderate level. Yet, movement continues to hold at or near the record pace established during 1971/72.

Lower output is the key to the currently brighter potato market. Last year's output was about a tenth under the two big preceding crops. Marketings have been heavy since last fall; January 1973 stocks were the lightest since 1968. In addition, producers intend smaller crops for the winter season but a somewhat larger output than last spring in anticipation that market prices will stay favorable.

FLUE-CURED NEEDS UP

The U.S. flue-cured tobacco supply is down again this season, but marketing penalties have been raised for the season ahead.

The 1972/73 supply is 2.9 billion pounds, down 4 percent from last year. The 1972 crop was 1.01 billion pounds, down 6 percent, and carryover into the current season was down 3 percent. Use will exceed marketings this season, so the carryover of flue-cured tobacco next July 1 is expected to decline.

The auction season last summer and fall was the shortest on record. Buyers bid up prices to new highs on the smallest marketings in 5 years. Domestic cigarette sales, barometer of industry needs, rose during 1972, and buyers anticipated continuing sales growth in the future.

To meet anticipated market requirements in the face of declining supplies, USDA raised the 1973 marketing quota a tenth; the effective quota is up 14 percent.

Export Prospects

U.S. leaf tobacco exports in the current calendar year will do well to equal the 524 million pounds average (export weight) of the preceding 10 years. Our high prices, large foreign supplies at lower prices, and European Community policies are impeding U.S. exports.

U.S. export payments will be terminated with the 1973 crop, although subsidized exports from earlier crops won't be complete for several years. This latter factor, plus the likelihood that the economic sanctions against Rhodesia will persist, will shore up U.S. tobacco exports in the near future. The lack of subsidies could take the edge off bidding next fall, however.

AMPLE CREDIT WAITING

During 1972, farm debt increased 8½ percent to $72 billion. (assets rose even faster, however, to $370 billion.) Debt is likely to rise another 6 percent or so in 1973.

Borrowing is on the rise for a number of reasons. Input prices are higher, especially for land, feed, and feeder livestock. More inputs will be needed to expand crop acreage and livestock production this year. CCC loans on stored grain must be settled before midyear. And top-dollar farm earnings and acreage expansion are encouraging a spate of major equipment purchases.

Although farmers will be competing for loan money in a strong and expanding economy, lenders feel that there is enough money to go around in 1973. Short-term notes may be up about ½-percent and long-term notes may be up even less from the 7½ to 8½ percent farmers paid in 1972.

RUSH ON FERTILIZER

Demand will be strong for most fertilizers as farmers press for high yields in 1973, in response to current favorable commodity prices, and expand acreage in response to farm program changes.

Fertilizer price changes were slight in 1972, as a combination of competitive forces and price controls kept price movements at a minimum at both the manufacturing and retail levels. The total farm bill for fertilizers was up an estimated 2 percent over 1971's $2.4 billion.

Price Outlook

This year will be different. Phase II price controls have been lifted. Under Phase III voluntary price standards, prices for some fertilizers will rise. Phase III give firms more leeway to increase prices than Phase II, and demand from American and foreign farmers is stronger.

Fertilizer prices at all marketing levels will be bullish in 1973. Prices of some specific items—urea, concentrated superphosphate, some of the ammonium phosphates, for example—most likely will increase. Prices for high-analysis phosphates will continue to be particularly unyielding because the foreign market for phosphates is booming.

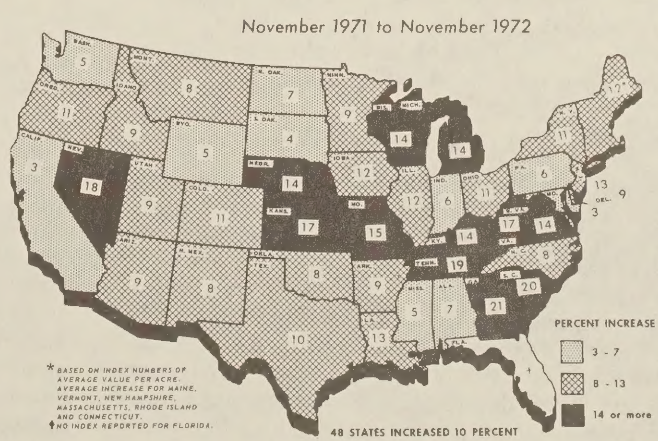
If a soft spot develops, it could be in the price of potash. The Saskatchewan-established floor price is not likely to be breached, but competitive forces may push down prices for coarse and granular grades.

LAND VALUES JUMP

Farm real estate values per acre increased 10 percent in the year ended November 1, 1972. This sharp increase reflects 2 years of highly favorable farm income, readily available credit, a slight downturn in the quantity of land offered for sale, and continuing strong nonfarm demand. Farmland values rose about 6 percent annually during the 1960's and 5 percent during 1971.

The index of average value per acre reached 137 percent of 1967, up 13 points from November 1971. Regionally, the strongest increase in value per acre, 16 percent, was recorded for the Southeast. The neighboring Appalachian States showed 14-percent higher values. Smallest increase, 4 percent, occurred in the Pacific States.

Percentage Change in Average Value of Farmland Per Acre



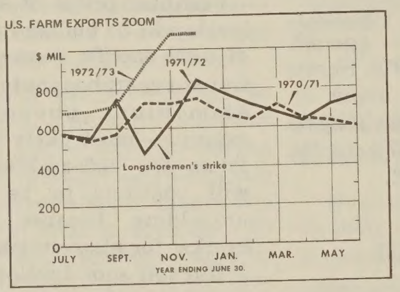
FOREIGN FOCUS

Digested from latest issues of Foreign Agricultural Trade of the United States.

Farm Exports Fly High

U.S. farm exports finished off 1972 in fine style by topping $1 billion in both November and December.

December's shipments brought farm exports for the first half of the 1972/73 fiscal year to $5.17 billion; exports of over $10 billion have been predicted for the whole fiscal year. Our agricultural imports have also been advancing, totaling $3.25 billion for the July-December stretch.



Grain shipments are the obvious reason for the big export jump. During July-December 1972, wheat exports were up two-thirds over the strike-strangled level of a year earlier, with USSR the biggest customer, and U.S. feed grain shipments practically doubled. There were also substantially bigger shipment values for soybeans and soybean meal, cattle hides, variety meats (edible offals), tobacco, vegetables, and nuts.

Centrally planned economies figure heavily in our farm sales this fiscal year. We exported $428 million in farm products to the Comecon area (mostly USSR) in July-December, while the People's Republic of China bought our farm goods for the first time in years. Exports added up to $58 million.

Government Subsidies Cut

Government subsidy payments for farm exports have been suspended or terminated over the past few months for wheat and products, rice, tobacco, chickens, and lard.

A program allowing exports of CCC-owned commodities for less than CCC purchase price, with the Government paying the difference, is still in operation, but exports of this type have been very limited recently, due to tighter supplies or higher export prices.

Government subsidies or CCC differentials during 1971/72 totaled $237 million. This was a third of the peak level in 1963/64.

Prospectus: Japanese Feed Market

The growth potential in the Japanese market for U.S. feedstuffs appears quite favorable for both feed grains and other feed ingredients.

The outlook for soybean sales also is bright, since Japan imports most of its soybean supply from us Three-fourths of consumption is for feed—primarily channeled into the mixed feed industry, where it is the principal high-protein component. The soybean oil produced jointly with the meal is either consumed domestically or exported.

Feedstuffs and soybeans were the twin nuclei of our total $1.4 billion farm-product sales to Japan in 1972. In 1960, we sold $11 million worth of feed grains to Japan; last year, sales totaled $318 million. About 60 percent was corn, and most of the rest was grain sorghums, which we first sold to Japan in 1963.

Sales of nongrain feeds dropped back $3 million to $33.4 million last year, compared with $4 million in 1960. Chief nongrain feedstuffs shipped in 1972 were alfalfa meal, soybean cake and meal, feather meal, sugar refining byproducts, and prepared feeds.

Soybean exports to Japan rose a fifth over 1971's record to reach $373 million last year, a steep gain from $93 million in 1960.

Bountiful Japanese rice harvests in 1967-70 left large excess rice stocks, reducing the Japanese feed market in 1971. Total Japanese feed imports grew only 1 percent in 1971, a sudden drop from the average growth of over 21 percent a year since 1960. But with surplus reduction the market rebounded, and our own feed grain exports to Japan picked up 45 percent for 1972.

The impact of 1971 is likely to be overshadowed by future growth in the Japanese feed market. In the past decade, Japan has emerged as the second largest free-world economic power. Affluence usually brings dietary change.

Per capita Japanese consumption of livestock products has gained rapidly in the last decade, yet levels are still a fraction of our own. If Japanese dietary trends continue, demand for livestock products will strengthen considerably over present levels.

Ability to maintain our market share will depend largely on our competitive position in the world marketplace for feed grains and the high-protein supplements the Japanese use to balance out feed grain rations. Trade negotiations may also play a part. Japan also purchases feed grains from some developing countries to encourage return sales of Japanese manufactured goods.